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Paraho-Ute shale oil project gets chance for federal support

The Paraho-Ute oil shale project in eastern Utah received a badly-needed shot in the arm in early April when it reached agreement on business and financial terms with the U.S. Synthetic Fuels Corporation that should allow it to get $2 billion in federal funding.

"This is the long-awaited decision which brings our project closer to being a reality," said Larry Lukens, president and chief executive officer of Paraho Development Corporation of Denver.

The project, located near Vernal, has until September 1st to satisfy certain remaining conditions established by SFC and to prepare final terms of the agreement, Luken said.

In addition to Paraho, the project sponsors include The Signal Companies, which has taken the lead role in the project, and Texas Eastern Synfuels Inc. and Raymond International Inc.

Future of the project was jolted in late February when Standard Oil Company (Ohio) announced it had withdrawn from the Paraho-Ute partnership.

Sohio also said that it and its partners in the nearby White River Shale Project — Phillips Petroleum Company and Sun Shale Oil Company — had notified SFC of their intention to withdraw their pending application for financial assistance.

The announcements caused considerable consternation in Utah and neighboring western Colorado. Both areas had been expecting boom times with shale oil developments, but in the past several years have seen many projects wither and fade away.

Immediately, the universal worry was that two more promising projects — and their attendant jobs, business and tax income — were about to go down the tubes.

But that worry has been greatly alleviated, at least insofar as Paraho-Ute is concerned, by the recent SFC action and its implied endorsement of the project.

Luken said it was the most significant step to be taken so far by his firm in a three-year process of seeking federal support for the 14,100 bpd shale oil facility.

He said that if progress continues on schedule and federal assistance is awarded, major construction of Paraho's facilities could be under way in 1986.

When it announced it was pulling out of the Paraho-Ute partnership, Sohio said its action should not be seen as a judgment about either the Paraho retort technology or suitability of the project for other companies.

Industry observers believe Sohio's actions in regards to both projects are due to a re-evaluation of long-term corporate plans and investment strategies.

Sohio's finances, as strong as they are, have been dented lately due to the writeoff of a large investment in a North Slope wildcat oil test that failed, large losses at subsidiary Kennecott and the writeoff of losses due to liquidation of its abrasives business, acquired when it bought Kennecott in 1980.

In addition, it is faced with the necessity of finding or buying replacements for the dwindling oil reserves at Prudhoe Bay.

Because of the large, long-term investment — with returns still uncertain — required to mount a major shale oil project, Sohio may be considering putting its oil shale efforts on the back burner and putting the money into other projects.

SFC initiates $4.38 billion in synfuels assistance awards

Some $4.38 billion in financial assistance awards to six synfuels projects were initiated April 5th by the United States Synthetic Fuels Corporation.

Five projects received letters of intent from the Synfuels board authorizing price guarantees or loan guarantees or both. The sixth, Union Oil Company of California's Parachute Creek Phase II project, received a letter of intent in December.

The board notified the Department of the Treasury to set aside:

— $620 million for the Dow Syngas coal gasification project in Louisiana.

— $543 million for the Kentucky Tar Sand project.

— $60 million for the Forest Hill heavy oil project in Texas.

— $100 million for the HOP Kern River Commercial Development project in Kern County, California.

— $365 million for the Northern Peat Energy project in Maine.

The Dow Syngas project will involve price guarantee assistance, Forest Hill Heavy Oil will have loan and price guarantees, Northern Peat Energy will receive loan and price guarantee assistance, Kentucky Tar Sand will be granted price guarantees only and HOP Kern River will have loan and price guarantees.

In other actions, the board voted to drop the First Colony peat-to-methanol project in North Carolina from consideration in the second solicitation phase by the corporation.

Union Oil's Parachute Creek project, which is about to begin production under Phase I at a rate of 10,000 bpd of syncrude, has proposed to the Synfuels board an 80,000 bpd expansion under Phase II in four increments of 20,000 bpd each. These incremental steps are proposed to come on line between 1990 and 1994.

Each increment of Phase II is expected to use two Union Oil "C" retorts. Phase II will involve expansion of the upgrading plant being used in Phase I as well as the opening of a new oil shale mine.

Union Oil is closing the gap on firing up Parachute Creek

Union Oil Company of California fired up the retort April 10th at the Parachute Creek oil shale project in western Colorado and reported a new scraper system "worked very well."

The scraper, a device to remove spent shale from the top of the retort, had caused problems in previous test runs. Shale had been pushed up above the scraper instead of falling into disposal chutes, threatening to overload and damage the scraper assembly.

During the latest test run, other problems, described by the company as "minor," developed in the downstream equipment and the retort was shut down the same day.

Union reported in March that the 10-foot diameter rock pump which feeds shale into the bottom of the retort worked smoothly and reliably. It is said to be the retort's most critical design feature.

The company hopes to try for another run by the end of April.

The $650 million project is designed to produce 10,000 barrels per day of upgraded syncrude from 12,500 tons of shale. It would be the nation's first commercial shale oil project.

Plant construction was completed last September, with the underground mine and the shale oil upgrading plant successfully commissioned and made ready for operations.

The plant's capital cost and technology are entirely the responsibility of the company. There is no federal risk or subsidy. The company has a contract to supply the Department of Defense with 10,000 barrels per day of diesel and jet fuel, valued at a maximum of $400 million over seven years.

Union expressed confidence in the project in March and said problems in the startup of new plants is to be expected. The delay in startup due to redesign of the scraper system cost between $250,000 and $500,000 a month.

Union's success at Parachute Creek is seen as critical to other shale oil ventures which rely on Union's patented retorting technology.